

As reprinted from 12/01/2007

**Martin: 'Safety before liquidity before yield'
Visiting Pinal, state treasurer says philosophy has kept Ariz. funds thriving despite
uncertain market**

Despite an unstable market and a tight legislative budget, the asset portfolio managed by the Arizona Treasurer's Office is performing well - so well that its earnings distributions were up more than 32 percent in the first quarter of fiscal 2008, which started July 1.

State Treasurer Dean Martin visited Pinal County Thursday to spread the word that the state funds are not only surviving the economic downturn but thriving, thanks in part to his philosophy of "safety before liquidity before yield."

"A bear market rewards this type of approach," Martin said. "Before the market turned, we bought then what people want now. It's like being in a stampede. You want to be in front of the stampede. In the back of the stampede, the ground is pretty well trodden."

The safety-first philosophy prompted the Treasurer's Office to get out of mortgage lending early and ensure that it had no investments in the sub-prime arenas. He began investing more in U.S. Treasury securities and watched the money grow while other states that didn't put safety first saw their portfolios spiral downward, Martin said.

The office serves as the state's bank - a place designed to keep taxpayer money safe. It is also the state fiduciary agent, providing investment management and financial services.

"Every penny that the state takes in - from taxes and fees to change in the vending machines at the state buildings - is deposited with us," Martin said.

Many local municipalities such as Casa Grande, Coolidge, Maricopa and others across the state also deposit their funds with the office. The funds are then pooled together with the state money and invested, making the state and contributing municipalities more money.

"We make the state and local taxpayers hundreds of millions of dollars each year," Martin said.

The office took in \$36.54 billion in deposits in fiscal year 2007 and on average conducts about \$300 million in banking transactions each day.

Martin said that a trade in December 2006 served as a good example of how quickly the office can turn a million-dollar profit.

"On the last business day of 2006, we had \$2.3 billion in cash on hand after other trades and payments," he said.

Wanting to turn a profit on that money, the office placed a bid to loan the money overnight, a common practice among banks and one that ensures the borrowing bank has sufficient cash on-hand to cover transactions when it reopens.

"The next day was a holiday anyway and the state wasn't going to use that money over the weekend," Martin said.

A bank accepted the bid, putting up \$2.346 billion in U.S. Treasury securities as collateral. On Jan. 2, the next business day, the Treasurer's Office received its \$2.3 billion back, plus an additional \$1.3 million in interest. Martin said such transactions are zero-risk and high profit.

"There's no risk. Even if the bank hadn't paid back the money, we still had \$2.346 billion in U.S. Treasuries," he said. "We are investing your taxpayer money. Safety is a priority."

Overall, the office manages a fixed income portfolio of more than \$10.9 billion and an equity portfolio of about \$1.4 billion. Securities in the portfolio range from repurchase agreements and commercial paper to collateralized mortgage obligations and corporate bonds with maturities ranging from overnight to 30 years, Martin said. By September, the office had \$12.11 billion in assets under management. That same month it distributed \$43.521 million in earnings.

While state and local government contributions comprise nearly two-thirds of the office portfolio, about \$2.56 billion belongs to the Permanent Endowment Fund, which was established in the state constitution to invest earnings made from land sales.

Proceeds from the Public Common School Fund of the endowment go directly to schools throughout the state. Fiscal year 2007-08 distributions from the fund were more than \$69.26 million, which equals an extra \$1,430 for each classroom in the state, Martin said.

The money is earmarked to pay for class size reduction, teacher pay raises, teacher training, AIMS testing assistance and dropout prevention, but "the school boards make the determination as to how the money is spent," Martin said.

As a statewide constitutional officer, Martin serves as the state's chief financial officer and is third in line of succession to the governor. He is responsible for the prudent custody and management of taxpayer money.

He has taken the job description one step further, he said, by advising the Legislature to think long-term with its budget to avoid shortages.

"The Legislature is in a tighter situation," Martin said. "They're spending money faster than it's coming in."

He said the Legislature has always relied heavily on the housing market for much of its budget.

"The housing market is like an anchor for the economy. When it goes down, it drags everything down," Martin said.

He cautions against borrowing from the "rainy day fund" to cover budget shortfalls and recommends a "deal with it now" approach to solving the state's financial problems.

"We've always had a boom-and-bust-cycle economy. Right now, we're in a bust cycle," Martin said. "If there's any silver lining to the housing bubble bursting, it's that we can catch our breaths and see how to prevent problems in the future."

By MELISSA ST. AUDE, Staff Writer, Casa Grande Dispatch